



UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

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PATENT PUBLIC ADVISORY COMMITTEE

ANNUAL REPORT

I. INTRODUCTION

A. BACKGROUND AND OPERATION OF THE PATENT PUBLIC ADVISORY COMMITTEE DURING FY 2004

Created to advise on “policies, goals, performance, budget and user fees of the USPTO with respect to patents,”¹ the Patent Public Advisory Committee (P-PAC) is now entering its fifth year. By statutory mandate, the P-PAC is composed of nine voting members who represent the diverse community of users of the United States Patent and Trademark Office (USPTO),² including individual inventors, universities, small entrepreneurial businesses, large U. S. corporations, and private practitioners. P-PAC also has three non-voting members³ who represent the three labor organizations recognized by the USPTO and which serve the community of USPTO employees.

Formation of the P-PAC in the year 2000 included the appointment of voting members, with three of the members having one, two and three-year terms to stagger the future appointment process. At the outset, the P-PAC recognizes those members whose terms will expire in November 2004. They provided a great public service, and their input has been an important part of the activities undertaken by the P-PAC during this last year. We extend our thanks and recognize the important contributions of the following members whose terms will be ending:

- Andy Gibbs
- Patricia Ingraham
- Stephen P. Fox

In-person meetings of the P-PAC were held during this last year at the offices of the Commissioner for Patents, in Arlington and Alexandria, Virginia. Members not attending in person were provided with the option of attending by conference call. Meetings⁴ of the P-PAC during 2004 were held as follows:

¹ American Inventors Protection Act of 1999 (AIPA); 35 U.S.C. § 5(d).

² AIPA, 35 U.S.C. § 5(b)(2).

³ AIPA, 35 U.S.C. § 5(b)(3).

⁴ Transcripts and agendas of the public meetings may be found at <http://www.uspto.gov/web/offices/com/advisory/>

April 28, 2004	Executive Session ⁵ and Public Meeting
August 13, 2004	Executive Session and Public Meeting
November 9, 2004	Executive Session and Public Meeting

In addition to review of budgetary and fiscal operation of the USPTO, and review of progress under the USPTO's *21st Century Strategic Plan*, both discussed elsewhere herein, the P-PAC reviewed the following rulemakings during FY 2004: 1) Proposed rule: Revision and Clarification of Ex Parte and Inter Partes Reexamination and Assignment Practice; 2) Interim rule: Changes to Implement the Cooperative Research and Technology Enhancement Act of 2004; 3) Final rule: Changes to Support Implementation of the United States Patent and Trademark Office 21st Century Strategic Plan; 4) Final rule: Revision of Power of Attorney and Assignment Practice; 5) Final rule: Revision of Patent Term Extension and Patent Term Adjustment Provisions; 6) Proposed rule: Revision of Patent Term Extension and Patent Term Adjustment Provisions; 7) Final rule: Changes to Implement the 2002 Inter Partes Reexamination and other Technical Amendments to the Patent Statute; 8) Proposed and final rule notices re FY05 Fee Revision; 9) Final rule: Changes to Appeal and Interference Practices.

B. SCOPE AND FOCUS OF THE ANNUAL REPORT

As members representing the diverse community of USPTO users who see intellectual property as vital to a growing, vibrant economy, and to maintaining competitiveness in an increasingly competitive global economy, the P-PAC shares the USPTO's vision of transforming the Office into a quality-focused, highly productive, responsive organization supporting a market-driven intellectual property system.

The USPTO's *21st Century Strategic Plan* (hereinafter the "*Strategic Plan*") has charted the course for achieving that vision.

This Annual Report first reviews the USPTO's mission and strategic goals as those have been defined by Congress, and as reflected in the *Strategic Plan*. Legislative developments in regard to the changes in user fees as recently enacted under the USPTO's Fee Modernization Act of 2003 and the USPTO's FY04 and expected FY05 budgets are then reviewed, followed by an evaluation of the USPTO's performance during FY 2004 as measured against the *Strategic Plan*. Additional accomplishments of the USPTO during FY04 are briefly highlighted, and the Annual Report then concludes with recommendations.

Particular attention is given in the Annual Report to focusing on the extent to which we believe the USPTO has succeeded under the first two years of the *Strategic Plan* in moving forward with its implementation. To the extent the USPTO has not fully realized the goals set out for

⁵ Matters discussed during the Executive Sessions will not be included in this report due to the restrictions on confidential information. USPTO budget and other confidential review are conducted in these meetings. To the extent information becomes public, it will be included in future Annual Reports.

implementing the *Strategic Plan* to date, the Annual Report will discuss what the P-PAC sees as reasons for such lack of progress.

II. USPTO MISSION AND STRATEGIC GOALS

Simply stated, the USPTO must ensure that the United States has an intellectual property system that is strong and vibrant. In terms of policy, this means that the USPTO is entrusted with responsibility to develop and maintain an intellectual property system that will 1) contribute to a strong U.S. and global economy and 2) foster the entrepreneurial spirit and encourage investment in innovation so as to meet the underlying Constitutional objective of promoting “progress of . . . [the] useful arts.”⁶

During the appropriations process for FY 2002, the USPTO was instructed by the Senate⁷ and the House⁸ to develop a five year strategic plan and a requirements-based budget structure that would serve to effectively improve the quality of granted patents, reduce patent pendency, and achieve electronic filing and patent processing.

In response, following a rigorous review of its internal operations, and after concerted effort to work with many of the major user groups, including the ABA Intellectual Property Law Section (ABA IPL Section), the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO), the International Trademark Association (INTA), the Biotechnology Industry Organization (BIO) and others, the USPTO released its *Strategic Plan* on Feb. 3, 2003.

The *Strategic Plan* charts a comprehensive course designed to enhance the quality of granted patents and trademark registrations; reduce pendency and improve the productivity in processing applications for patents and for the registration of trademarks; and increase efficiency through expansion of electronic government programs.⁹

⁶ Article 1, Section 8.

⁷ See Senate Report 107-42 (“The Committee is pleased that the Secretary of Commerce has made a commitment to improve PTO operations and initiate an internal review to determine what the agency needs to do its job. Consistent with that approach, the Committee directs the Secretary of Commerce to develop a 5-Year Strategic Plan for the PTO. . . .”).

⁸ See the 21st Century Department of Justice Appropriations Authorization Act, H.R. 2215 § 13104, 107th Congress (“The Director shall . . . develop a strategic plan that sets forth the goals and methods by which the United States Patent and Trademark Office will, during the 5-year period beginning on January 1, 2003: (A) enhance patent and trademark quality; (B) reduce patent and trademark pendency; and (C) develop and implement an effective electronic system for use by the Patent and Trademark Office and the public for all aspects of the patent and trademark processes . . .”).

⁹ Some of the core provisions of the *Strategic Plan* include consolidation of quality assurance activities; competitively contracting out classification and search functions, and concentrating Office expertise as much as possible on core government functions, in particular examination; and expanding bilateral and multilateral discussions to strengthen intellectual property rights globally and to reduce duplication of effort among offices.

Following completion of the *21st Century Strategic Plan*, the House Committee on Appropriations remarked that “This plan calls for some of the most sweeping changes to the patent review process in 200 years, and the Committee supports these recommendations.”¹⁰ The *Strategic Plan* also received the support of many of the major user groups that worked with the USPTO during its development.¹¹

III. USER FEES AND BUDGET REVIEW

We reiterate the observation which we made last year in the Annual Report, that “Any plan, no matter how well conceived, is of little value without adequate funding to implement it.” Accordingly, in addition to the *Strategic Plan* the USPTO also devised and proposed a comprehensive new fee schedule, the “United States Patent and Trademark Fee Modernization Act of 2003.”

As recently enacted, the bill realigns fees to better reflect the needs of USPTO customers and to correlate with the extra effort required to meet the demands of certain patent applications. The realignment provides refundable search and examination fees rather than a composite fee as currently charged. This provides patent applicants with a reduced filing fee and gives them an opportunity to evaluate the commercial value of their invention prior to incurring additional costs. The new fee schedule thus is designed to accomplish two important goals: (1) it revises the patent and trademark fee schedule to reflect more accurately the costs of the services provided by the United States Patent and Trademark Office (USPTO) and provides greater flexibility to users in deciding which fees to pay based on perceived value of an invention; and (2) provided that the USPTO is fully funded from the increase, it would allow the agency to generate the income necessary to at least begin more fully implementing the goals and objectives of the USPTO’s *21st Century Strategic Plan* during the next two years.

A. LEGISLATIVE ACTIVITY ON THE PTO’S FEE MODERNIZATION ACT

On March 3, 2004, the House passed on a 379-28 vote an amended version of the “United States Patent and Trademark Fee Modernization Act of 2003” (H.R. 1561). The principal amendments to the bill included the following:

- Section 2 of the bill, in part, requires the use of a pilot and testing program to evaluate the effectiveness of commercial entities as qualified search authorities and further requires relevant reports to Congress by the USPTO and the Patent Public Advisory Committee. Also, commercial entities performing search services contracted out by the USPTO as envisioned under the *Strategic Plan* would have to be U.S.- based concerns employing U.S. citizens. Section 2 also caps search fees for a three-year period and limits future increases for an additional three-year period.

¹⁰ House Report 108-221.

¹¹ In a joint letter dated Nov. 22, 2002 to the President’s Director, Office of Management and Budget, AIPLA, IPO and INTA stated: “We are pleased that we can now report, in light of proposed refinements to the Plan recently shared with us by Under Secretary Rogan, that we whole-heartedly endorse the Plan.” ABA IPL Section submitted a separate letter to the same effect.

- Section 5 of the bill amends subsection (c) of section 42 of title 35, United States Code, to establish in the Treasury a Patent and Trademark Fee Reserve Fund and to provide that any fee collections in excess of the amount appropriated to the USPTO in any particular fiscal year would be deposited in that Fund. Subject to findings and regulations, the Director of the USPTO could make partial rebate payments from the Fund to persons who paid patent or trademark fees during that fiscal year. This provision would not remove the USPTO from the appropriations process nor would it diminish any of the Congressional oversight to which it is currently subject. However, importantly, this provision would insure that fees collected in excess of appropriations would be returned to users, not simply diverted to other non-PTO uses. The provision would thus effectively end the practice of diverting user fees to non-PTO purposes.
- During the bill’s consideration on the House floor, a “manager’s amendment” was offered and adopted as a compromise to concerns raised about the impact of the increased fees on small businesses. The “manager’s amendment” provides that as an incentive for electronic filing, certain fees for small entities will be reduced by 75%.

H.R. 1561 was introduced in the Senate on March 4, 2004 and referred to the Committee on the Judiciary, which reported the bill with no change. In September 2004, the Fee Modernization Act was incorporated into the 2005 Commerce-Judiciary-State appropriation bill (S. 2809). The Senate Appropriations version of the Act established the new fee schedule provisions temporarily for two years, or until the end of fiscal year 2006. The amendments to H.R. 1561, as described above, were not included in S. 2809.

With only minor exceptions, fee levels remain the same as those proposed originally in the Administration bill and carried forward in H.R. 1561. The following table compares the S. 2809 fees with current FY 2005 fees.

Comparison of Selected Patent Fees Under Current Fee Schedule and S. 2809

Description	Fiscal Year 2005 Current Fee		S 2809	
	Large Entity	Small Entity	Large Entity	Small Entity
Utility Application	\$790	\$395	\$300	\$150 paper, \$75 electronic
Search/ Examination	N/A	N/A	\$700	\$700
Total of Application/Search/ Examination Fees	\$790	\$395	\$1,000	\$850 paper, \$775 electronic
Percentage Increase in Fees			27%	115% paper, 96% electronic

Issue	\$1,370	\$685	\$1,400	\$700
Pre-Grant Publication	\$300	\$300	\$300	\$300
First Stage Maintenance	\$940	\$470	\$900	\$450
Second Stage Maintenance	\$2,150	\$1,075	\$2,300	\$1,150
Third Stage Maintenance	\$3,320	\$1,660	\$3,800	\$1,900
Total Fees through Life Cycle	\$8,870	\$4,585	\$9,700	\$5,350 paper, \$5275 electronic
Percentage Increase in Total Fees through Life Cycle			9%	17% paper, 15% electronic

Each Independent Claim, In Excess of Three	\$88	\$44	\$200	\$100
Each Total Claim, In Excess of Twenty	\$18	\$9	\$50	\$25
Number of Pages over 100, In Increments of 50	N/A	N/A	\$250	\$125

B. FY 2004 BUDGET AND CURRENT EXPECTATIONS FOR FY 2005

1. FY 2004 Budget Review

For the first four months of FY 2004, the USPTO remained under the restrictions of a continuing resolution before an appropriations bill was passed, thus limiting the USPTO budget to levels of spending set for the previous year. The FY 2004 appropriation of \$1.222 billion represented an increase of \$40 million, or 3% more than spending levels under the FY 2003 enacted budget. However, the FY 2004 appropriation fell short of the President's budget request of \$1.404 billion by \$182 million (or 13%). As P-PAC predicted last year, these funding levels have severely challenged the operations of the USPTO, making it difficult just to meet basic operating expenditures, let alone providing for any significant implementation under the second full year of the *Strategic Plan*.¹²

Total funding available for spending in FY 2004 was \$1.235 billion (\$1.222 billion appropriated, \$3 million carryover from FY 2003, and \$10 million in recoveries in FY 2004). Estimated fee collections for FY 2004 under the President's budget were \$1.303 billion without the fee bill, as compared to actual receipts of \$1.322 billion (of which \$1.313 billion were received in FY 2004, and \$9 million received in FY 2003 but processed in FY 2004). Planned obligations of the USPTO under the President's budget for FY 2004 were \$1.233 billion, as compared to actual obligations of \$1.233 billion for the year.

The FY 2004 funding level has required the USPTO to adapt its *Strategic Plan* for the second year in a row to implementation without any real funding to pay for the *Strategic Plan*.¹³ This continues to be a significant deterrent in P-PAC's view to reversal of the current disturbing trend of increasing patent pendency, which is now reaching 30 to 40 months in some USPTO tech centers.

¹² This is especially true since \$44,000,000 in the USPTO's FY 2004 budget was already required by contract to be allocated to pay for the move of the USPTO to its new campus in Alexandria, thus effectively eliminating even the 3% increase (e.g. \$40 million) for any use beyond the scheduled move in 2004.

¹³ This is the same pattern that occurred with respect to USPTO funding last year. The USPTO was also under a continuing resolution for the first four months of FY 2003, and the FY 2003 appropriation of \$1.182 billion provided \$183,000,000, or 13.5% less than the expected Presidential request of \$1.365 billion. As we noted in last year's Annual Report, "The P-PAC sees this appropriation pattern as a deeply disturbing trend. The amounts being appropriated for the USPTO budget are dramatically below the President's budget request for each year. This trend is exacerbated by the fact that application filings continue to increase. Indeed, in FY 1990 patent filings were 163,571, as compared to filings of 355,418 in FY 2003. This represents an increase of over 217%, or 15.5% per year on average."

2. Expectations for FY 2005

Turning briefly to FY 2005, P-PAC is pleased to note that this year the President's budget request for \$1.533 billion (which assumes enactment of the fee bill) had no planned fee diversion.¹⁴ In that respect the President's budget represents a much needed and welcome change in USPTO budgetary policy.

As for the level of appropriation, in September 2004 the Senate Appropriations Committee approved S. 2809, Departments of Commerce, Justice, and State (CJS) Appropriations Bill for FY 2005. The Senate appropriators recommended a budget of \$1.523 billion, which was passed just shortly to completion of this Report. The bill is subject to earmarks of:

- \$20 million for increasing its efforts to ensure that governments in developing and least developed countries are establishing regulatory and enforcement mechanisms in order to meet their international obligations relating to the protection of intellectual property, and to assist them in these efforts, and
- \$0.99 million for a grant to the Whittemore School of Business for an intellectual property rights pilot project.

As noted, to date Congress has not appropriated funding levels that permit the USPTO to implement its *Strategic Plan* during either of the first two years of that plan. In the view of P-PAC and others, this has seriously hampered the USPTO's ability to address the critical problems of patent quality and increasing pendency.¹⁵

With passage of the Fee Modernization Act, appropriations will, at least for the coming year, come close to achieving the goal of providing the USPTO with full use of all user fees paid to it.¹⁶ Provided that the Congress will be willing in future years,¹⁷ particularly FY 2006, to adopt

¹⁴ The President's budget request included a proposed \$38 million transfer to OPM for USPTO retirement benefits, but we do not view this as a diversion of fees for non-PTO uses, but rather, as a legitimate agency cost used for the employees of the USPTO.

¹⁵ See, for example, the reports released within the last year by the NAS ("A Patent System for the 21st Century," p. 68, noting that "To improve its performance, the USPTO needs additional resources. These funds should enable hiring additional examiners, implementing a robust electronic processing capability, and creating a strong multidisciplinary analytical capability The current USPTO budget does not suffice to accomplish these objectives") and the FTC ("To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," noting that "Presidential patent review committees have long advocated more funding for the PTO to allow it to improve patent quality. As recently as 2002, the Patent Public Advisory Committee stated that the PTO 'faces a crisis in funding that will seriously impact . . . the quality of . . . issued patents.' The FTC strongly recommends that the PTO receive funds sufficient to enable it to ensure quality patent review." Executive Summary, pp. 12 - 13).

¹⁶ In one sense, the USPTO is "fully funded" since the President's proposed budget, which did not contain any diversion, was enacted. However, whether there in fact will be some diversion of user fees during FY 2005 will ultimately depend on whether the actual fees collected by the USPTO exceed the amount appropriated for the USPTO for FY 2005.

the policy set by the Administration in this year's budget of ending diversion, there is the hope that the increased funding provided under the Fee Modernization Act for at least the next two years will begin to permit the problems faced by the USPTO to be more aggressively addressed.

IV. PERFORMANCE AS MEASURED AGAINST THE *STRATEGIC PLAN*

A. QUALITY

Improving the quality of the patent examination process continues to be the highest priority of the USPTO under the *Strategic Plan*. However, the drastically cut funding levels for FY 2004 as compared to the President's budget request, coupled with the strictures of a continuing resolution during the first four months of USPTO operations, placed the USPTO under the necessity of limiting implementation of quality and productivity initiatives under the *Strategic Plan* at base funding levels.

The USPTO fell short of its Fiscal Year 2004 target in quality (5.3% actual vs. 4.0% target error rate¹⁸ for allowed applications). However, this is an *average* taken across all technology centers, and the USPTO continues to improve in a number of key areas.¹⁹

P-PAC commends the USPTO's efforts to improve patent quality even in the face of current budgetary constraints. These efforts are reflected in the number of initiatives which the USPTO began last year under its first year of the *Strategic Plan* and which have continued during FY

¹⁷ As noted above, the House version of the Fee Modernization Act (H.R. 1561) contained an amendment that provided that any fee collections in excess of the amount appropriated to the USPTO in any particular fiscal year would be deposited in a treasury fund so that the Director of the USPTO could make partial rebate payments from the fund to users who paid patent or trademark fees during that fiscal year. This provision, while not removing the USPTO from the appropriations process nor diminishing Congressional oversight, would have insured that fees collected in excess of appropriations would be returned to users, not simply diverted to other non-PTO uses. Absent some kind of language such as that contained in H. R. 1561, there is a distinct possibility that diversion of user fees to non-PTO uses may be continued by the Congress. This in fact was noted by the ABA in a letter dated Sep. 14, 2004, sent by the ABA to key members of the Senate Committee on Appropriation: "H.R. 1561, which has passed the House and has been favorably reported by the Senate Judiciary Committee, would impose substantial increases in user fees paid to the PTO, and also contains provisions designed to ensure that all fees collected by the Office are used to fund PTO operations. The Appropriations Committee, however, is proposing to include only the user fee increases, and not the provisions of section 5 of H.R. 1561 that are designed to stop the practice of appropriating for PTO use less than the full amount of user fees collected. Ending this practice, which has come to be known by the shorthand term "user fee diversion," is one of the highest legislative priorities of the American Bar Association. The ABA supports the enactment of H.R. 1561 as passed by the House and reported by the Senate Judiciary Committee because we believe that section 5, along with the bill's fee increases, is a reasonable and effective means to ensure that the PTO receives the resources it needs to provide quality services in a timely manner."

¹⁸ The USPTO defines this as any claim which should not have been allowed under any of statutory sections 102 (anticipation), 103 (obviousness), 112 (lack of written description, lack of enablement, indefiniteness) or 101 (non-statutory subject matter).

¹⁹ Although error rates for specific TCs had not yet been provided to P-PAC at the time of this Annual Report, last year, by way of example, in those TCs responsible for examining software and business method cases, e.g., Tech Centers 2100, 2600 and 2800, the FY 2004 error rates were 2.0%, 2.5% and 2.6% respectively, as compared to the overall average error of 4.4% for the entire examining corp. This is a positive reflection that particularly in some of the most challenging technologies, the USPTO's efforts to improve quality are succeeding.

2004. Included among the quality initiatives that are have been started under the *Strategic Plan* are the following:

- Improved pre-employment screening for new examiner hires by
 - certifying that new hires have better communication skills through improved oral interview processes and writing samples; and
 - completing an assessment of interim screening processes.
- Improved certification of patent examiner and supervisor knowledge, skills and abilities (KSA) by
 - developing the KSAs for patent examiners and supervisors;
 - incorporating the KSAs into patent examiner training programs to ensure that the examiners and supervisors have the requisites needed to be successful in their positions;
 - establishing Training Art Units for new examiners in high volume technology centers;
 - increasing the number of work reviews, and developing a legal competency exam prior to promotion of patent examiners to GS-13 level; and
 - initiating several continuing legal education (CLE) courses for examiners.
- Certification of examiners prior to GS-13
 - Work product reviews
 - Requirement for passing the certification exam
 - Offering Patent Law, Evidence and Practice and Procedure courses
- Re-certification of Primary Examiners by
 - increasing the number of work product reviews; and
 - developing required CLE courses for Primary Examiners.
- Improved process for selecting and training Supervisory Patent Examiners to improve their effectiveness.
- Improved competitive compensation program for Supervisory Patent Examiners.
- Improved procedures for enhancing the reviewable record for patents (e.g., the file history) by revising interview summary forms to require greater detail and recording of what transpired during the interview, and revising MPEP guidelines to reflect such changed requirements.
- Expanded program for the in-process reviews of applications during prosecution by increasing supervisory review of applications to ensure proper rejections were made.
- Expanded program for the “second pair of eyes” program to include targeted areas in every technology center, since it was successfully piloted in the business method examining units.

- Developed quality assurance program for technical support duties
 - Implemented new performance standards

Information from in-process reviews²⁰ is helping the USPTO identify needed areas of training and other changes to enhance overall product quality and improve the consistency and quality of examination. The USPTO is developing ways to expand the nature and type of such in-process reviews in order to assist management in determining the root causes of problems and suggesting ways to overcome such problems so as to continue to improve quality. The P-PAC commends the USPTO for its efforts to expand its in-process reviews in this way and looks forward to receiving the results of those in-process reviews so that P-PAC can assist in evaluating them with the USPTO.

B. E-GOVERNMENT

1. Electronic Management of Applications Using the Image File Wrapper (IFW) System

The P-PAC is pleased to report that the USPTO continues to make significant strides towards achieving some of the e-government goals of the *Strategic Plan* through the implementation of the Image File Wrapper (IFW) system. IFW is an electronic image version of the paper patent application file wrapper, and is created by scanning all papers in the application file wrapper using software initially developed by the EPO. IFW provides users instant and concurrent access to a patent application, eliminates examiner interruption for paper entry, and eliminates lost or damaged papers as opposed to paper patent applications. IFW will result in a patent application system that is not only paperless, but also faster and easier to use, and will better serve internal PTO personnel, applicants and the public.

Deployment of IFW into all 284 Group Art Units (GAUs) of the various Tech Centers in the USPTO and thus availability and use of IFW by all 3,664 staffed patent examiners was completed on Aug. 21st of this year. Examiners in all GAUs and their staff are thus able to now electronically access most applications using the IFW.

Currently, the USPTO is managing 88% of all applications with IFW, which exceeded the FY 2004 goal of 70%. Completion of IFW, meaning that all remaining “backfile” applications (i.e., those with filing dates prior to June 30, 2003) is expected to be finished by January 2005, with all newly received amendments currently being entered into IFW. PALM identifies the application as an IFW or paper one. If the application is already in IFW, the amendment is indexed and scanned. If the application is in paper, the application is located, the papers are indexed, and the entire file history is scanned including the most current response.

Public Patent Application Information Retrieval (Public PAIR) was released July 30, 2004. This further aspect of the IFW is a significant step toward the USPTO’s e-government initiative.

²⁰ In-process reviews, as opposed to end-process reviews, concentrate on improper rejections, e.g., rejections based on art that does not meet all of the claimed limitations, or the failure to identify adequate motivation to combine references. End-process reviews, on the other hand, concentrate on the improper allowance of unpatentable claims.

Published applications and most of their file contents can now be accessed and viewed on line by members of the public, thus providing much expanded USPTO website access to published applications and patents. The public can also search by application, patent, or publication number, view bibliographic data and PALM transactions, view continuity, foreign priority, Pre-Grant Publication (PG Pub) numbers and dates, and patent term adjustment or extension history, and can view and download image file wrapper content for published and patented IFW applications. Certified file copies from the office of public records can be ordered online. This new electronic capability is already being widely utilized by the public, with approximately 76,000 files having been viewed on-line during October 2004.

2. Electronic Filing

As noted in our Annual Report last year, use of the USPTO's patent electronic filing system (EFS) continues to present significant challenges. During FY 2004 only 1.5% of all newly filed applications were filed using EFS. Clearly there is a need for further work to make EFS more user friendly, as well as a need for more effort to educate and motivate the user community to use EFS.

In that regard, P-PAC believes that the USPTO's Electronic Filing Forum, which was held on September 28, 2004, represents an important step in the right direction. The goal of the Forum was to gain insight from those attending as to what steps the USPTO needs to consider taking in order to substantially increase the number of patents being filed electronically. Approximately forty representatives gathered with USPTO personnel at the Forum, with those in attendance representing many of the largest USPTO filers, including both corporate and law firm filers.

The core message conveyed by those attending the Forum is that increased electronic patent filing will only be possible if the USPTO implements a system for electronic filing that meets the criteria of being safe, simple and streamlined. There was strong consensus expressed by the Forum attendees that the current EFS (including both PASAT and ABX) is cumbersome, time consuming, costly, and inherently risky. The current EFS system is thus viewed by users as not meeting the desired criteria. Attendees further expressed that no current or planned refinements to the current EFS are perceived as meeting these criteria. Attendees uniformly expressed high levels of frustration with the authoring tools, including difficulty of use, inability to download necessary software through firewalls, and disruption to workflow.

Forum attendees were nearly unanimous in their desire for a web-based system that can accept PDF documents and better match their workflow processes.

As a follow-up to the Forum, the P-PAC has begun to discuss with the USPTO issues and recommendations relating to the outcome of the Forum. In that regard, there are both front-end and back-end considerations in system design that must be taken into account in considering what may be the best overall approach and solution to both electronic filing and electronic workflow processes. Front-end system design focuses on increasing user compliance with e-filing by simplifying the EFS system and making it safe. Back-end system design focuses on how electronic documents, once filed, are converted to the most useful format possible that will ultimately support robust use of the electronic data to maximize electronic searching and

retrieval by both the USPTO, compatibility with other major patent offices (e.g., trilateral partners) and information searching and retrieval by user and public communities. Challenges exist in melding the front-end and back-end considerations and in maintaining inter-operability between platforms over time.

The PTO has historically pursued a character-based EFS system (e.g., XML-based technologies such as PASAT and ABX) because of its long-term objective to fully integrate front-end filing with the back-end workflow processes of the PTO (e.g. publication, archiving, retrieval). Those back-end workflow processes currently use XML-based systems because the character-based data are much more robust in terms of data management, archiving, searching and retrieval.

The USPTO is beginning to reassess its historical character-based (i.e. XML type) approach to EFS in view of the Forum, and has asked P-PAC to work with it in regard to that reassessment effort. P-PAC is thus working with the USPTO in that respect.

C. PENDENCY

Average patent pendency (filing to issue) for FY 2004 was 27.6 months, up from last year (26.7 months) but less than the adjusted target for FY 2004 which was projected to be 29.8 months.²¹ Time to first action or “first action pendency” was 20.2 months, also up from last year (18.3 months), but which otherwise met the adjusted target for FY 2004 of 20.2 months.

While FY 2004 targets for overall patent pendency and first action pendency were either met or exceeded in relation to adjusted targets based on amount and timing of appropriations, the *trend* represented by the increase from year to year continues to be deeply disturbing. As we noted in the Annual Report for FY 2003, the effects of the trend are further worsened because they are cumulative. It is to be hoped, as noted in the concluding portions of this Report, that this trend will at long last begin to be halted and even reversed.

V. OTHER ACCOMPLISHMENTS OF NOTE DURING FY 2004

A. OFFICE OF ENFORCEMENT

The USPTO's Office of Enforcement works to raise the level of and standards for intellectual property enforcement worldwide. The Office of Enforcement accomplishes this mission by, among other things, training law enforcement personnel and other government officials throughout the world on best practices for, and the importance of, enforcing intellectual property rights. During fiscal year 2004, the Office of Enforcement organized and conducted over 40 training programs for foreign judges, prosecutors, Customs officials and police, in countries throughout South America, Central America, Africa, Europe, Asia and the Pacific Islands. In addition to providing traditional intellectual property enforcement training, the Office of

²¹ *Adjusted* targets are developed once the USPTO receives its actual appropriation from Congress (e.g., for FY 2004, a *reduction* of \$182 million or 13% as compared to what was requested in the President's budget) as well as by taking into account the four months of continuing resolution under which the USPTO operated while waiting for an appropriations bill to be passed.

Enforcement provides "train the trainer" programs, in which leading law enforcement officials from target countries are identified to receive extensive training in intellectual property enforcement, and then tasked with training their colleagues.

The Office of Enforcement also works to improve and strengthen the laws protecting intellectual property by drafting and negotiating strong, modern intellectual property enforcement provisions in free trade and other international agreements with U.S. trading partners, by monitoring how intellectual property rights are enforced by other countries, and, where appropriate, by engaging other governments on enforcement issues and demanding increased intellectual property protection. Pursuant to 15 U.S.C. § 1128, the USPTO, through the Office of Enforcement, also serves as co-chair of the National Intellectual Property Law Enforcement Coordination Council ("NIPLECC"), which is statutorily tasked with coordinating "domestic and international intellectual property law enforcement among federal and foreign entities."

B. PCT FEE INCREASES BLOCKED

At the September 2004 meetings of the Assemblies of the World Intellectual Property Organization (WIPO) the USPTO delegation succeeded in blocking fee increases proposed by the International Bureau of WIPO for the use of its Patent Cooperation Treaty (PCT) system. Approximately 2 out of every 3 dollars in fees paid by PCT applicants are diverted to WIPO activities other than the PCT. P-PAC commends the USPTO for its efforts to fight against any increase in diversion of PCT fees by WIPO. PCT fee income now accounts for almost 80% of WIPO's total funding, with 36% of that income coming from American users of the PCT system. With strong industry support, this victory means that PCT applicants from the United States will save over \$6 million in 2005 alone. This saving translates into real money staying in the pockets of American corporations and inventors where it will be available to them for other priorities, instead of funding an international bureaucracy, the priorities of which are not always aligned with those of the United States.

C. USPTO EMPLOYEES RECOGNIZED FOR EXCELLENCE

At the Department of Commerce Honor Awards Program recently held, fifty USPTO employees received gold and silver awards. The Gold Medal is the Commerce Department's highest award and is granted for distinguished performance that is characterized by extraordinary contributions in advancing the USPTO's mission and that of the Department of Commerce. The Silver Medal is presented for exceptional performance characterized by noteworthy contributions.

Activities in which the recipients of the Gold Medal awards were engaged, and for which their contributions were recognized, included:

- Development and implementation of the Image File Wrapper system, which enhances the USPTO's agility and transformation to a disseminated, universal software environment – Edward Kazenske, David L. Talbott, John J. Doll, Fredrick Schmidt, Douglas J. Bourgeois, Joel E. Brown and Jeffrey W. Baer

- Development of improved and coordinated PCT search and examination guidelines to be followed by ten international authorities in the search and examination of international applications – Esther M. Keplinger, Linda S. Therkorn, Magdalen Y. Greenlief, Stephen G. Kunin, Jasmine C. Chambers, Charles A. Pearson, Susan C. Wolski, and Jon P. Santamauro
- Leadership in promoting intellectual property enforcement in China on behalf of U. S. owners of IP – Mark A. Cohen
- Leadership in efforts to enhance continuing liaison with private sector interests to improve the effectiveness of interagency functioning on intellectual property rights policy – Mary Critharis, Charles R. Eloshway, Karen M. Hauda, Minna F. Moezie, Michael B. Adlin, Caridad Berdud, Amy P. Cotton, Linda S. Lourie, David M. Morfesi, Jennifer A. Ness, Michael S. Shapiro, Michael S. Keplinger and Peter N. Fowler

Activities in which the recipients of the Silver Medal awards were engaged, and for which their contributions were recognized, included:

- Planning and executing the USPTO's move from Crystal City to the new five-building campus in Alexandria – John L. LeGuyader, Richard A. Bertsch, Keith M. VanderBrink and Cathleen English
- Implementation of the E-Patent Reference system to give patent customers electronic access to U. S. Patents and patent application publications referenced during examination – Edmund M. Crump, Timothy M. McMahon, Mary E. Small, Robert A. Clarke, Jay P. Lucas, and Horatious Tanyi
- Development of improved and coordinated PCT search and examination guidelines to be followed by ten international authorities in the search and examination of international applications – Joseph J. Rolla, Jr., Allen R. MacDonald, Paula K. Hutzell, Julie E. Burke, Diana L. Oleksa, Leonard E. Smith, Daniel Stemmer and Harold P. Smith, Jr.
- Development of a fully automated E-Gov system that generates and sends bulk mail to the USPS NetPost website for printing, stamping and mailing, resulting in significant cost savings and improved customer delivery time - Ernest Shaw, Amy W. Forrest, David Ordoobadi, Stephen M. Senkow, Patricia A. Zwirnbaum, and Kathryn E. Tindle

P-PAC joins in recognizing and thanking these individuals for their continued dedication and effort toward improving USPTO operations, and helping to truly make a positive difference.

VI. CONCLUSION

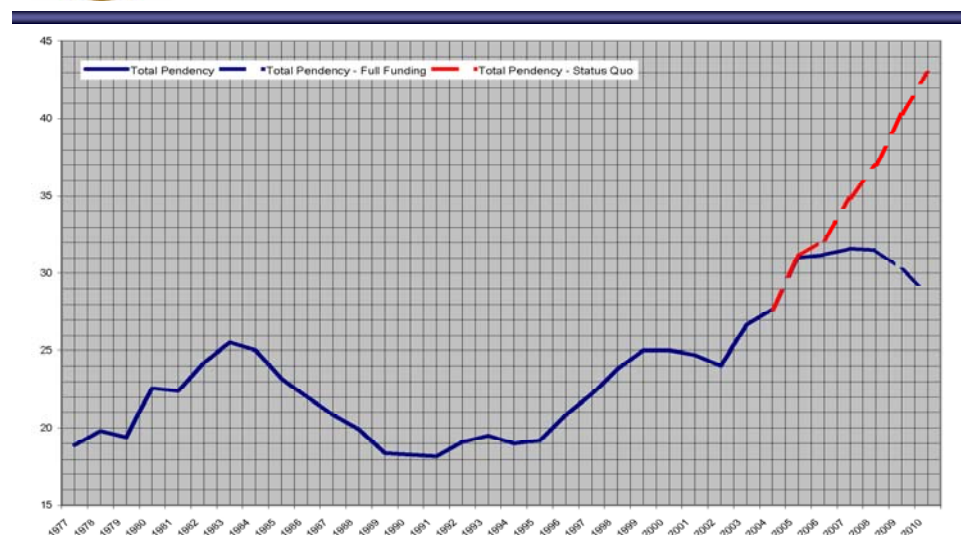
The P-PAC commends the men and women of the U. S. Patent and Trademark Office. They are continuing to work hard not to fall farther behind, and to meet targets set by USPTO management with respect to quality, e-government and pendency.

The \$180 million reduction in the amounts appropriated (as compared to the President's budget request) for the USPTO during the first two years of its *Strategic Plan* (i.e. for FY 2003 and FY 2004) have resulted in limiting the number of new examiners hired to meet the increasing workload to replacement of attrition only. In other words, FY 2003 and FY 2004 represent, in real terms, *lost years*. The *Strategic Plan* called for 750 new examiners to be hired in each of FY 2003 and FY 2004. Thus, taking into account the almost 900 new examiners not hired in FY 2003 and FY 2004, to make up for these two years alone, the USPTO would have to hire in FY 2005 those 900 or so new examiners *in addition* to the 650 new hires which are expected under the *Strategic Plan* for FY 2005, or a total of approximately 1,550 new hires. This simply is not possible even if it were funded by appropriations, because of the limitations in ability to train and assimilate that many new hires. Hence the reason why these years represent *lost years* in terms of reducing pendency as initially set out in the *Strategic Plan*.

Pendency continues to be a major strategic objective of concern. As the following chart demonstrates, if the positive trends in removing fee diversion as set forth in the President's budget for FY 05 is continued, and if that policy is adopted by the Congress so that the USPTO is fully funded with the fee increase beyond simply the next fiscal year as more or less provided in the recently enacted appropriations bill, this disturbing trend can be halted and even reversed. However, absent that kind of positive and lasting change in funding pendency will inevitably continue to be a problem which will add to uncertainty for competitors who would otherwise seek to avoid infringing activity, and will stifle investment opportunity for others.



Total Pendency



In making this statement, the P-PAC recognizes that a policy keyed to simply hiring new examiners as “the” solution to reducing pendency is not appropriate. Indeed, Congress has made

it clear that it will not countenance such an approach.²² However, the *Strategic Plan* addresses reducing pendency by not only hiring new examiners, but also by outsourcing prior art searching, improving work sharing among various international patent offices, and various other initiatives intended to conserve core examiner time and allow such to be redirected to the substantive determination of patentability by patent examiners.

Due to lack of adequate funding during the first two years of its *Strategic Plan* these further initiatives are still in the early stages of development and piloting. It is to be hoped that the changes in funding going into FY 2005 will mark the beginning of the positive changes expected under these initiatives.

P-PAC looks forward to continuing its work with the USPTO in the coming year.

Respectfully Submitted,

A handwritten signature in black ink, reading "Rick D. Nydegger". The signature is fluid and cursive, with the first name "Rick" being the most prominent.

Rick D. Nydegger, Chair
Patent Public Advisory Committee

²² The USPTO's fiscal year 2003 plan was strongly criticized by the Congress as an attempt by the USPTO to simply "hire its way out of" the current crisis stemming from growing pendency due to backlog, as opposed to finding ways to become more efficient. See, e.g., Senate Report 107-42 ("PTO management has not been sufficiently innovative. Although patent filings have increased dramatically over the past decade, PTO management chose to remain wedded to an archaic patent process and attempted to hire its way out of its workload problems."). This ultimately led to a Congressional mandate (see footnotes 7 and 8 above) to develop a five year strategic plan that would focus more on improved productivity through improved retention, better hiring practices, and improved training, among other things, as opposed to simply increasing the number of new examiner hired each year.